

## **International Financial Services Centres Authority**

### **Seventh Authority Meeting held on 30<sup>th</sup> June, 2021**

#### **Gist of Agenda item: Report of the Committee on positioning IFSC as a hub for offshore trading in INR**

1. The Committee on positioning IFSC as a hub for offshore trading in INR (“the Committee”) was appointed by the Chairman, IFSCA on February 5,2021 with a mandate to:
  - i. determine the regulatory and infrastructural requirements necessary to create the necessary conditions for development of IFSC as a hub for offshore trading in INR.
  - ii. assess the current regulatory and infrastructural facilities at IFSCs in light of the requirements determined.
  - iii. recommend specific measures to bridge the identified gaps between (i) and (ii) in the form of a report to Chairman, IFSCA.

Further, the Committee could also examine and make recommendations on other issues of importance not specifically mentioned in the above terms of reference.

2. In its report, submitted on June 18,2021, the Committee has stressed the need for IFSCA to adopt international best practices and policies with regard to the following components of a financial market namely:
  - i. Participants
  - ii. Products
  - iii. Infrastructure
  - iv. Regulation

It also laid stress on alignment of the Legal and Tax frameworks underpinning the above components to international standards.

3. The Committee has made 49 recommendations in the abovementioned areas. The major recommendations are as follows:

#### **Participants:**

- IFSCA should implement the globally accepted regulatory regime for trading and clearing OTC derivatives
- IFSC’s regulatory framework should be geared towards encouraging widest possible client participation subject to satisfaction of KYC/AML norms
- Recognition of Omnibus Account structure for participants in IFSC with necessary checks and balances

#### **Products:**

- Adopt an outcome oriented, principle-based approach for derivative products in IFSC.
- Permit all category of products at IFSC without any restriction as long as the underlying product is not liable to be used as a surrogate for money laundering
- Allow derivatives to be undertaken for the purposes of risk management, risk transformation, yield enhancement or trading/speculation.
- Request the Government to make necessary amendments to the Securities Contract Regulation Act, 1956 to permit offshore derivative instruments (ODIs) on Indian securities to be issued out of IFSC.

### **Infrastructure:**

- IFSCA to create enabling provisions to recognise and regulate Prime Brokerage arrangements
- IFSCA should permit its regulated entities the use of any settlement infrastructure (including outside its jurisdiction) subject to such an infrastructure being appropriately regulated.
- IFSCA should permit IBUs and foreign entities to comply with the margining guidelines through full substituted compliance
- IFSCA should permit re-use of collateral in both bilateral as well as tripartite settlement structures.
- IFSCA should, wherever possible and feasible, encourage alternate settlement infrastructure using technologies such as Blockchain

### **Regulations**

- Exchanges in IFSC be allowed to introduce derivative contracts in new currency pairs for widening the range of FX offerings in IFSC
- IFSCA should actively encourage Indian banks to shift the part of their treasury operations, focused on raising foreign exchange resources and hedging their foreign exchange positions, to their IBUs
- Regulatory sandbox scheme of IFSCA should encourage fintech platforms operating in areas such as cross border remittances and handling of digital assets.

4. The report of the Committee is submitted for information of the Authority.